

LEGISLATIVE COUNCIL BRIEF

PROPOSED FREE TRADE AGREEMENT BETWEEN HONG KONG AND THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS

INTRODUCTION

At the meeting of the Executive Council on 16 April 2013, the Council ADVISED and the Chief Executive ORDERED that Hong Kong (HK) should accept the Association of Southeast Asian Nations (ASEAN)¹'s proposal to pursue an HK-ASEAN Free Trade Agreement (FTA) and start the preparatory discussions; and if the outcome of the preparatory discussions is favourable, we should commence negotiation with ASEAN on the FTA.

JUSTIFICATIONS

2. With a view to enabling our goods, services and investments to access the ASEAN market under more favourable conditions, HK put forward a formal request to ASEAN in November 2011 to join the China-ASEAN Free Trade Area (CAFTA)². Over the past 18 months, ASEAN has deliberated on HK's request at various levels. At a meeting of ASEAN Economic Ministers held in March 2013, the Ministers reached a consensus to pursue a bilateral FTA with HK instead. Brunei, the Chair of ASEAN in 2013, wrote to HK formally to seek our view on this proposal.

¹ ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

² In 2002, China and ASEAN agreed to establish CAFTA. CAFTA encompasses a number of agreements between China and ASEAN covering trade in goods, trade in services, investment, intellectual property, dispute settlement, and standards, technical regulations and conformity assessment.

3. ASEAN is HK's second largest trading partner in terms of trade in goods and the fourth largest in services³. Many of the ASEAN member states (MSS) individually are also important trading partners of HK. An FTA between HK and ASEAN will enhance trade and investment flows between HK and ASEAN, generate new opportunities for businesses, and boost economic growth in the longer term.

4. From a wider perspective, there has been a proliferation of bilateral or plurilateral FTAs being negotiated or concluded within the Asia-Pacific region, as economies seek to achieve closer integration through reducing barriers to trade and investment. Many of HK's main trading partners are actively engaged in or have expressed an interest in participating in such initiatives. It would be important for HK to pursue similar initiatives to help maintain and enhance our strategic edge as a regional trading hub and our international profile.

5. Joining CAFTA and establishing a bilateral FTA with ASEAN are two different pathways to the same goal of fostering closer economic integration with ASEAN. A bilateral FTA with ASEAN is also in line with HK's usual approach of entering into FTAs on its own with trading partners, such as HK's FTAs with New Zealand, the MSS of the European Free Trade Association⁴, and Chile.

6. With the endorsement of the Executive Council, we have responded positively to ASEAN. At their meeting on 24 to 25 April, ASEAN Leaders endorsed the proposal to engage HK bilaterally for an HK-ASEAN FTA. We are discussing with ASEAN to start the preparatory work as soon as possible, with a view to commencing negotiation within this year.

Possible Elements in the FTA

7. We aim to establish a high-quality FTA with ASEAN. The following major areas may be covered in the FTA –

- (a) elimination and/or reduction of tariffs and non-tariff barriers;
- (b) preferential rules of origin;
- (c) liberalisation of trade in services;

³ Ranking is based on trade statistics for goods in 2012 and for services in 2011.

⁴ The MSS of the European Free Trade Association are Norway, Switzerland, Iceland and Liechtenstein.

- (d) liberalisation, promotion and protection of investment; and
- (e) dispute settlement mechanism.

8. Before commencing negotiations, we will develop our negotiation strategy as well as wish-lists and offers for the HK-ASEAN FTA in consultation with relevant bureaux and departments, as well as the local business sector and professional bodies as appropriate.

BASIC LAW IMPLICATIONS

9. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. Negotiations and conclusion of FTAs is within the high degree of autonomy of the Hong Kong Special Administrative Region (HKSAR) as provided for under Article 151 of the Basic Law. The Article provides, inter alia, that the HKSAR may on its own conclude and implement agreements with foreign states in the economic, trade and other appropriate fields.

FINANCIAL AND CIVIL SERVICE IMPLICATIONS

10. The preparation for and conduct of negotiations with ASEAN will require no additional financial or manpower resources. Trade and Industry Department will undertake the additional work involved using its existing resources.

ECONOMIC IMPLICATIONS

11. The HK-ASEAN FTA will provide HK with better access to the markets of the ASEAN MSS and create more business opportunities beneficial to HK's long-term economic growth. It will also strengthen HK's role as an international trade, commerce and financial centre.

SUSTAINABILITY IMPLICATIONS

12. The HK-ASEAN FTA can, in overall terms, bring more and better access to the markets of the ASEAN MSS, create more business opportunities for HK businessmen and increase trade and investment flows between HK and the ASEAN MSS. By enhancing our economic links with the ASEAN economies, this will also help strengthen our role

as an international trade, commerce and financial hub.

PUBLIC CONSULTATION

13. To help develop our negotiation strategy and to better gauge the interests of our businesses in the ASEAN market, we will consult the Trade and Industry Advisory Board, major trade and industrial associations as well as professional bodies before and, if necessary, also in the course of our negotiation with ASEAN. We will also request relevant bureaux and departments to consult their stakeholders as appropriate.

PUBLICITY

14. A press release will be issued. A line-to-take will be prepared and a spokesman will be available to answer media enquiries.

BACKGROUND

15. We have signed four FTAs respectively with the Mainland in 2003, New Zealand in 2010, the MSS of the European Free Trade Association in 2011, and Chile in 2012.

16. On trade in goods, ASEAN was HK's second largest trading partner after the Mainland in 2012. Total trade amounted to HK\$730 billion, accounting for 9.9 per cent of HK's total trade in goods. In 2011, ASEAN was HK's fourth largest trading partner in services, accounting for 8.5 per cent or HK\$107 billion of HK's total trade in services. Total trade in services and goods have grown at an average annual rate of 8.2 per cent and 6.0 per cent respectively in the last five years⁵. HK and the ASEAN MSS also have a close investment relationship. As at end 2011, ASEAN was the sixth major source of inward direct investment into HK (with cumulated stock amounted to HK\$206.2 billion) and the fifth major destination of outward direct investment from HK (with cumulated stock amounted to HK\$177.7 billion).

⁵ For trade in services, the figures covered the period from 2007 to 2011, whilst for trade in goods from 2008 to 2012.

ENQUIRIES

17. For enquiries, please contact Mr Rick CHAN, Assistant Director-General of Trade and Industry Department, at 2398 5309.

Trade and Industry Department
26 April 2013